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Governor

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Teresa J. Hill, Secretary
Environmental and Public
Protection Cabinet

Commonwealth of Kentucky
Environmental and Public Protection Cabinet
Public Service Commission

John W. Clay
Commissioner

Timothy J. LeDonne
Commissioner
Department of Public Protection

211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460

NEWS RELEASE

Contact:
Andrew Melnykovich
(502) 564-3940 x208
(502) 330-5981 (cell)

PSC APPROVES TRANSFER OF KENTUCKY-AMERICAN WATER CO.
Commission places conditions on public sale of parent company stock

FRANKFORT, Ky. (April 16, 2007) – The Kentucky Public Service Commission (PSC) today approved the proposed transfer of control of the Kentucky-American Water Co. through a public sale of the stock of its parent company.

However, the PSC conditioned its approval on the acceptance of a number of conditions intended to protect the company's customers from excessive costs or declining service as a result of the sale.

"In light of the lack of any significant benefit that the proposed transaction will bring to Kentucky-American ratepayers and the significant risk and uncertainty that it will create, the proposed transaction is in the public interest only under the conditions" placed upon it by the PSC, the commission said in an order issued today.

Because the management of both Kentucky-American and its parent company, American Water Works Co., will remain substantially unchanged after the stock sale, the companies will retain the ability to provide reasonable service, the PSC said.

"The proposed transaction will have no immediate or direct effect on Kentucky-American," the PSC said.

But the commission also noted that the acquisition of large blocks of stock by one or more entities could give them control of the company and the ability to affect its management. The PSC noted that any person or entity acquiring 10 percent or more of the stock in American Water would be deemed under Kentucky law to have a controlling interest in the company and thus would be required to seek additional approval from the PSC.

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RWE Aktiengesellschaft (RWE) owns American Water, which is the sole shareholder of Kentucky-American. RWE proposes to divest itself of American Water through an initial public offering (IPO) of stock.

RWE purchased American Water five years ago. Prior to the 2002 transaction, American Water was the largest publicly traded water utility in the United States. It would regain that status if the proposed transfer occurs.

Kentucky-American serves about 112,000 residential, commercial and industrial customers in Fayette and 11 other counties. The company also sells water to five municipal water systems and three water districts. It was incorporated in 1882 as the Lexington Water Company.

American Water owns and operates water and sewer systems serving about 10 million people in 23 states. It also manages water or sewer systems serving 5 million people in 18 states and three Canadian provinces.

Among the conditions the PSC placed on its approval of the IPO are:

- The costs of the IPO will not be passed on to Kentucky-American or its ratepayers.
- American Water and Kentucky-American will maintain water quality, water supply and water service and Kentucky-American customers will not experience any decline in water service as a result of the IPO.
- Non-management and union employee positions will be maintained for at least a year after the IPO. Kentucky-American's top managers also will be allowed to continue in their current jobs for up to a year.
- At least 40 percent of Kentucky-American's board of directors will be non-employees drawn from within the company's service area.
- Kentucky-American will continue to support economic development efforts and maintain its current level of social and charitable activities and contributions.
- Kentucky-American's headquarters will remain in Lexington.
- RWE will replenish American Water's pension fund to restore it to the level that existed when RWE acquired the company.

Today's order and other documents in the case are available on the PSC Web site, psc.ky.gov. The case number is 2006-00197.

The PSC is an independent agency attached for administrative purposes to the Department of Public Protection in the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.

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